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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1992

L 92-22446

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT of 1934

For the transition period from _____ to _____

Commission File Number: 0-19345

PENNFIRST BANCORP, INC.
(Exact name of registrant as specified in its charter)

Pennsylvania	25-1659846
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

600 Lawrence Avenue
Ellwood City, Pennsylvania 16117
(Address of principal executive offices)

(412) 758-5584
Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days. YES X NO ___

Shares outstanding as of May 13, 1992: 1,319,824 shares Common Stock, $.01 par value.

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PENNFIRST BANCORP, INC.

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PENNFIRST BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Condition

Assets	March 31, 1992 (Unaudited)	December 31, 1991
Cash on hand and due from banks	$ 872,268	$ 1,922,093
Interest-earning deposits in other institutions, including certificates of deposit totaling $2,112,000 at December 31, 1991	2,871,438	4,759,655
Federal funds sold	----	1,000,000
Investment securities, at cost (market value of $8,903,696 and $12,177,961 on March 31, 1992 and December 31, 1991, respectively)	8,848,861	12,041,754
Mortgage-backed securities, at cost (market value of $191,853,995 and $178,607,874 on March 31, 1992 and December 31, 1991, respectively)	195,024,130	176,694,610
Loans receivable, net	74,434,111	76,755,710
Accrued interest receivable, net of reserve for uncollected interest of $103,894 and $102,076 at March 31, 1992 and December 31, 1991, respectively	2,731,804	2,931,147
Real estate owned, net	2,035,720	2,056,200
Federal Home Loan Bank stock, at cost	2,788,500	1,543,500
Office properties and equipment, at cost, less accumulated depreciation and amortization	2,094,592	2,163,937
Prepaid expenses and sundry assets	586,058	586,170
Total assets	$292,285,482	$282,454,776
Liabilities and Stockholders' Equity		
Liabilities:		
Savings deposits	$214,434,982	$232,669,983
Advances from borrowers for taxes and insurance	1,362,235	1,025,864
Borrowed funds	37,630,160	11,110,656
Federal and state income taxes	662,865	504,161
Accrued expenses and other liabilities	1,950,365	1,319,281
Total liabilities	256,040,607	246,629,945
Commitments and contingencies	----	----
Stockholders' equity:		
Preferred stock:		
5,000,000 shares, $.01 par value per share, authorized;		
None outstanding	----	----
Common stock:		
10,000,000 shares, $.01 par value per share, authorized; 1,319,824 shares issued and outstanding	13,198	13,198
Additional paid-in capital	11,492,130	11,492,130
Retained income, substantially restricted	25,034,581	24,621,012
Unvested shares held by the Management Recognition Plan	(47,479)	(50,792)
Employee Stock Ownership Plan Debt	(247,555)	(250,717)
Total stockholders' equity	36,244,875	35,824,831
Total liabilities and stockholders' equity	$292,285,482	$282,454,776

See accompanying notes to consolidated financial statements.

PENNFIRST BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Income

	Three Months Ended March 31, (Unaudited)	
	1992	1991
Interest income:		
Loans	$1,662,918	$2,052,431
Mortgage-backed securities	3,845,225	2,156,245
Investments	279,872	647,729
Federal Home Loan Bank stock	60,979	32,652
Total interest income	5,788,994	4,889,057
Interest Expense:		
Savings deposits and escrow	2,914,172	2,965,659
Borrowed funds	539,934	105,264
Total interest expense	3,454,106	3,070,923
Net interest income	2,334,888	1,818,134
Provision for possible losses on loans	148,864	125,700
Net interest income after provision for possible losses on loans	2,186,024	1,692,434
Non-interest income:		
Fees and service charges	145,740	125,226
Other income	57,554	3,558
Total non-interest income	203,294	128,784
Non-interest expenses:		
Salaries and personnel costs	559,915	490,432
Premises and occupancy costs	176,550	161,109
Federal insurance premiums	119,415	98,250
Data processing costs	96,026	68,038
Advertising	17,830	18,458
(Gains) losses on real estate owned	(7,515)	(35,870)
Other	523,261	292,869
Total non-interest expense	1,485,482	1,093,286
Income before income taxes	903,836	727,932
Income taxes:		
Federal	311,750	262,594
State	59,733	42,068
Total income taxes	371,483	304,662
Net income	$ 532,353	$ 423,270
Earnings Per Share	$.40	$.32
Dividends Per Share	$.09	$.08
Weighted Average Shares Outstanding	1,319,824	1,319,824

See accompanying notes to Consolidated Financial Statements.

PENNFIRST BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flow

	Three Months Ended March 31, (Unaudited)	
	1992	1991
Cash flows from operating activities:		
Net income	$ 532,353	$ 423,270
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	77,420	75,771
Provision for loan and real estate owned losses	141,349	89,830
Decrease in accrued interest receivable	199,343	181,235
(Increase) decrease in prepaid and sundry assets	2,112	(61,186)
Increase in accrued interest payable	879,680	727,752
Increase in other liabilities	246,479	409,271
Amortization of premiums and accretion of discounts	133,147	14,934
Other	3,313	5,972
Net cash provided by operating activities	2,215,196	1,866,849
Cash flows from investing activities:		
Net decrease in loans	2,137,377	974,701
Purchases of:		
Investment securities	(1,009,766)	----
Mortgage-backed securities	(37,237,399)	(7,900,190)
Principal repayments of Mortgage-backed securities	18,768,182	2,062,791
Proceeds from sale of real estate owned	72,561	125,179
Proceeds from maturities of investment securities	4,200,001	4,674,999
Purchase of FHLB stock	(1,245,000)	(243,300)
Purchase of fixed assets	(8,075)	(30,398)
Net cash used by investing activities	(14,322,119)	(336,218)
Cash flows from financing activities:		
Net increase in NOW, money market demand, passbook, and club accounts	4,351,779	1,163,127
Net increase (decrease) in certificates of deposit	(22,586,780)	2,218,118
Net increase (decrease) in other borrowed funds	26,519,504	(7,854)
Cash dividends paid on Common Stock	(118,784)	(99,000)
Principal repayment of ESOP loan	3,162	3,161
Net cash provided by financing activities	8,168,881	3,277,552
Net increase (decrease) in cash and cash equivalents	(3,938,042)	4,808,183
Cash and cash equivalents at beginning of year	7,681,748	19,704,682
Cash and cash equivalents at end of year	$ 3,743,706	$24,512,865
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest expense	$ 2,564,932	$ 2,349,089
Income taxes	$ 240,000	$ 90,000
Noncash item - foreclosed mortgage loans transferred to real estate owned	$ 46,566	$ 46,043
Dividends declared but not paid	$ 118,784	$ 99,000

See accompanying notes to consolidated financial statements.

PEMFIRST BANCORP, INC. AND SUBSIDIARIES

Consolidated Statement of Changes in Stockholders' Equity

Three Months Ended March 31, 1992 (Unaudited)

	Common Stock	Additional Paid in Capital	ESOP Debt	Unvested Shares Held by MRP	Retained Income	Total Stockholders' Equity
Balance at December 31, 1991...	$ 13,198	$11,492,130	$(250,717)	$(50,792)	$24,621,012	$35,824,831
Principal payment on Employee Stock Ownership Plan (ESOP) debt.....	----	----	3,162	----	----	3,162
Accrued compensation expense for the Management Recognition Plan (MRP).....	----	----	----	3,313	----	3,313
Cash dividends declared on Common Stock at $.09 per share.....	----	----	----	----	(118,784)	(118,784)
Net income.....	----	----	----	----	532,353	532,353
Balance at March 31, 1992.....	$ 13,198	$11,492,130	$(247,555)	$(47,479)	$25,034,581	$36,244,875

See accompanying notes to consolidated financial statements.

PENNFIRST BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. **BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements have been prepared in accordance with instructions for Form 10-Q and therefore do not include information or footnotes necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with generally accepted accounting principles. However, all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation have been included. The results of operations for the three months ended March 31, 1992 are not necessarily indicative of the results which may be expected for the entire fiscal year.

2. **RECLASSIFICATION OF PRIOR YEAR'S STATEMENTS**

Certain items previously reported have been reclassified to conform with the current year's reporting format.

PENNFIRST BANCORP, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 1992

General

PennFirst Bancorp, Inc. ("PennFirst" or the "Company") is the parent holding company of Ellwood Federal Savings Bank (the "Savings Bank" or "Ellwood Federal"). The operating results of PennFirst depend primarily upon its net interest income, which is determined by the difference between interest and dividend income on interest-earning assets, principally loans, mortgage-backed securities and investment securities, and interest expense on interest-bearing liabilities, which consist of deposits and borrowings. The Company's net income also is affected by its provision for possible losses on loans, as well as the level of its non-interest income, including loan origination and other fees, and its non-interest expenses, such as employee salaries and benefits, occupancy costs and income taxes.

In general, thrift institutions are vulnerable to an increase in interest rates to the extent that interest-bearing liabilities mature or reprice more rapidly than interest-earning assets. The lending activities of thrift institutions, including the Savings Bank, have historically emphasized the origination of long-term, fixed-rate loans secured by single-family residences, and the primary source of funds of such institutions has been deposits. As a result of the authorization of deposit accounts which bear interest rates that reflect market rates and the removal of limitations on interest rate ceilings on deposit accounts, the last of which was removed effective March 31, 1986, the deposit accounts of thrift institutions largely mature or are subject to repricing within a short period of time. This factor, in combination with substantial investments in long-term, fixed-rate loans, has historically caused the income earned by thrift institutions, including the Savings Bank, on their loan portfolios to adjust more slowly to changes in interest rates than their cost of funds. While having liabilities that reprice more frequently than assets is generally beneficial to net interest income in times of declining interest rates, such an asset/liability mismatch is generally detrimental during periods of rising interest rates. To reduce the effect of adverse changes in interest rates on its operations, the Company has implemented the asset and liability management policies described below.

Asset and Liability Management

PennFirst maintains a program designed to preserve the Company's relatively low exposure to material and prolonged increases in interest rates. The principal determinant of the

exposure of PennFirst's earnings to interest rate risk is the timing difference between the repricing or maturity of PennFirst's interest-earning assets and the repricing or maturity of its interest-bearing liabilities. PennFirst's asset and liability management policies have increased the Company's interest rate sensitivity primarily by shortening the maturities of PennFirst's interest-earning assets while at the same time extending the maturities of PennFirst's interest-bearing liabilities. The Board of Directors of PennFirst continues to believe in strong asset/liability management in order to insulate the Company from material and prolonged increases in interest rates. As a result of this policy, the Board recently determined to restructure the Company's portfolio of assets in order to emphasize a larger, more diversified portfolio of residential mortgage loans in the form of mortgage-backed securities. The Company's mortgage-backed securities portfolio consists of both adjustable-rate as well as fixed-rate securities that have expected weighted average lives of between three and seven years. The foregoing strategy resulted in decreases in both loans receivable and investment securities during the three months ended March 31, 1992 combined with an increase of $18.3 million or 10.4% in mortgage-backed securities.

The Company's Board of Directors established an Asset and Liability Management Committee consisting of two outside directors and the President and Chief Executive Officer of the Company. This committee, which meets quarterly, generally monitors various asset and liability management policies which were implemented by the Savings Bank over the past few years. These strategies have included: (i) the restructuring of the Company's asset portfolio as described above; (ii) an emphasis on the origination of single-family residential adjustable-rate mortgages ("ARMs") and commercial real estate loans, which generally have adjustable or floating interest rates and/or shorter maturities than traditional single-family residential loans, and consumer loans, which generally have shorter terms and higher interest rates than mortgage loans; and (iii) maintaining the weighted average maturity of the Company's investment portfolio at five years or less.

As of March 31, 1992, the implementation of these asset and liability initiatives resulted in the following: (i) $40.4 million or 54.3% of the Company's total loan portfolio had adjustable interest rates or maturities of less than 12 months; (ii) $17.5 million or 40.0% of the Company's portfolio of single-family residential mortgage loans consisted of ARMs; (iii) $82.0 million or 42.0% of the Company's portfolio of mortgage-backed securities were secured by ARMs; and (iv) $8.3 million or 94.0% of the Company's investment securities portfolio had scheduled maturities of five years or less.

The implementation of the foregoing asset and liability strategies has resulted in the Company being able to maintain a one-year interest rate sensitivity GAP ranging between a positive

10.0% of total assets to a negative 10.0% of total assets. The one-year interest rate sensitivity GAP is defined as the difference between the Company's interest-earning assets which are scheduled to mature or reprice within one year and its interest-bearing liabilities which are scheduled to mature or reprice within one year. At March 31, 1992, the Company's interest-earning assets maturing or repricing within one year totaled $146.7 million while the Company's interest-bearing liabilities maturing or repricing within one-year totaled $159.1 million, providing a deficiency of interest-earning assets over interest-bearing liabilities of $12.4 million or a negative 4.3% of total assets. At March 31, 1992, the percentage of the Company's assets to liabilities maturing or repricing within one year was 92.18%. The Company's one-year GAP decreased from a negative 2.4% of total assets at December 31, 1991 to the negative 4.3% of total assets at March 31, 1992 as a result of the Company's purchase in 1992 of $37.2 million of fixed-rate mortgage-backed securities with an expected weighted average life of approximately six years. The purchase of such fixed-rate mortgage-backed securities have enhanced the Company's yield on its mortgage-backed securities portfolio and will not have a significant adverse effect on the Company's interest rate sensitivity GAP. The Company does not presently anticipate that its one-year interest rate sensitivity GAP will fluctuate beyond a range of a positive 10.0% of total assets to a negative 10.0% of total assets.

Results of Operations

PennFirst reported net income of $532,000 and $423,000 during the three months ended March 31, 1992 and 1991, respectively. Net income increased by $109,000 during the three months ended March 31, 1992 when compared to the same period in 1991. The increase was primarily the result of a $517,000 increase in net interest income and a $75,000 increase in non-interest income, which more than offset an increase in non-interest expense of $392,000, an increase in income tax expense of $67,000 and an increase in the provision for possible losses on loans of $23,000.

Net Interest Income. The Company's net interest income increased by $517,000 or 28.4% during the three months ended March 31, 1992 when compared to the same period in 1991. This increase resulted from an increase in total interest income of $900,000 or 18.4%, which offset an increase of $383,000 or 12.5% in total interest expense for the three months ended March 31, 1992 when compared to the same period in the prior year. The increase in total interest income was primarily attributable to an increase in the average balance of mortgage-backed securities. The increase in total interest expense was due primarily to an increase in the average balance of interest-bearing liabilities.

Interest Income. Interest on loans decrease by $390,000 or 19.0% for three months ended March 31, 1992, when compared with the

same period in 1991. The decrease in 1992 was due primarily to a decline in weighted average yield of 107 basis points for the three months ended March 31, 1992, when compared to the same period in 1991 The decrease in interest on loans was also due to a $7.6 million decrease in the average balance of loans outstanding. The decline in the weighted average yield was due to a decrease in short-term market rates. The decline in the Company's average balance of loans reflected the Company's restructuring of its asset portfolio and the increased purchases of mortgage-backed securities. See "-Asset and Liability Management."

Interest on mortgage-backed securities increased $1.7 million or 78.3% for the three months ended March 31, 1992, when compared with the same period in 1991. The significant increase was due primarily to a $105.1 million increase in the average balance of mortgage-backed securities. The significant increase in the average balance of mortgage-backed securities reflected the asset restructuring and purchases of mortgage-backed securities referred to above. During the three months ended March 31, 1992, the Company purchased $37.2 million of additional mortgage-backed securities, consisting primarily of Federal National Mortgage Association ("FNMA") mortgage participation certificates and, to a lesser extent, Federal Home Loan Mortgage Corporation ("FHLMC") mortgage participation certificates.

Interest and dividends on investment securities and other interest-earning assets (consisting primarily of U. S. Government and agency obligations, corporate obligations, interest-earning deposits and FHLB of Pittsburgh stock) decreased by $400,000 or 58.7% for the three months ended March 31, 1992, when compared with the same period in 1991. The decrease resulted primarily from a decline of $10.0 million in the average balance of investment securities outstanding. The decrease in the average balance of investment securities reflected the restructuring of the Company's asset portfolio and the investment of the proceeds from maturing loans and investments into mortgage-backed securities.

Interest Expense. Interest expense on deposits, the largest component of the Company's interest-bearing liabilities, decreased slightly by $51,000 or 1.7% for the three months ended March 31, 1992, when compared with the same period in 1991. The decrease reflected a significant decline of 139 basis points in the weighted average rate paid on the Company's deposits, which more than offset a $40.6 million increase in the average balance of deposits outstanding. The average rate paid on deposits declined due to a general decrease in short-term interest rates. The increase in the average balance of deposits during 1992, as compared to the same period in 1991, was primarily due to the Savings Bank's acquisition of $37.0 million of deposits from the Resolution Trust Corporation ("RTC") in November 1991.

Interest on borrowings (consisting of advances from the FHLB of Pittsburgh, Treasury Tax and Loan Note Payable and Employee Stock Ownership Plan Note Payable) increased by $435,000 or 412.9% for the three months ended March 31, 1992, when compared to the same period in 1991. This increase was primarily due to an increase of $37.6 million in the average balance of such borrowings during the period due primarily to the purchase of $37.2 million in fixed-rate mortgage-backed securities which were funded at a positive interest rate spread through short-term advances from the FHLB of Pittsburgh.

Provisions for Possible Loan Losses. Provisions for possible loan losses are charged to earnings to bring the total allowance to a level considered appropriate by management based on historical experience, the volume and type of lending conducted by the Savings Bank, the status of past due principal and interest payments, general economic conditions, particularly as they relate to the Savings Bank's market area, and other factors related to the collectibility of the Savings Bank's loan portfolio.

PennFirst established provisions for possible loan losses of $149,000 and $126,000 for the three months ended March 31, 1992 and 1991, respectively. The provision in 1992 was primarily due to increases in the Savings Bank's general allowance for losses on loans. The provision during 1991 was primarily related to specific reserves with respect to the Savings Bank's largest loan, which subsequently was determined to be an in-substance foreclosure. The borrower was an equipment leasing company located in Carnegie, Pennsylvania. On March 15, 1991, this borrower filed for protection under Chapter 11 of the Federal Bankruptcy Code. A voluntary petition to convert to Chapter 7 was subsequently approved and a court appointed trustee has been named to oversee the liquidation of this borrower's assets and to distribute the proceeds to its creditors. The Savings Bank holds a first mortgage on the borrower's real estate. The Savings Bank will continue to analyze this asset to determine if any additional specific provisions are necessary. During 1991, the Savings Bank charged-off $413,000 in specific reserves relating to this loan and reclassified the loan as real estate owned. The Savings Bank had a $1.3 million net investment in the above real estate owned property as of March 31, 1992. As a result of the provision during the three months ended March 31, 1992, the Savings Bank's total allowance for loan losses at March 31, 1992 increased to $1.1 million or 1.36% of the Savings Bank's total loan portfolio, as compared to $952,000 or 1.22% at December 31, 1991.

Non-Interest Income. The Company's non-interest income increased by $75,000 or 57.9% for the three months ended March 31, 1992, when compared with the same period in 1991. The increase in 1992 was primarily due to increases in real estate owned rental income and fees on NOW accounts.

Fees and service charges increased by $21,000 or 16.4% for the three months ended March 31, 1992, when compared to the same period in 1991. As discussed above, the primary reason for the increase was due to an increase in fees on NOW accounts.

Miscellaneous other income increased by $54,000 for the three months ended March 31, 1992, when compared with the same period in 1991. The increase in 1992 was primarily due to an increase in real estate owned rental income. The increase in rental income was attributable to the Company's two largest real estate owned properties.

Non-Interest Expense. Non-interest expense increased by $392,000 or 35.9% for the three months ended March 31, 1992, when compared with the same period in 1991. The increase in 1992 was primarily attributable to: (1) a provision for loss on a fixed asset; (2) increases in salaries and personnel costs; and (3) expenses associated with the Company's two largest real estate owned properties.

The largest component of the Company's non-interest expense is salaries and personnel costs, which increased by $69,000 or 14.2% for the three months ended March 31, 1992, when compared to the same period in 1991. The increase in 1992 was primarily due to the hiring of additional personnel due to the acquisition of a branch office from the RTC and the related assumption of $37.0 million of deposit liabilities. The increase was also aided by, to a lesser extent, normal salary increases.

Premises and occupancy costs increased by $15,000 or 9.6% for the three months ended March 31, 1992, when compared to the same period in 1991. The increase in 1992 was attributable to increased operating costs primarily associated with the acquisition of a branch office from the RTC.

Federal insurance premiums increased by $21,000 or 21.5% for the three months ended March 31, 1992, when compared to the same period in 1991. Federal insurance premiums are a function of the size of the Savings Bank's deposit base. Premiums were assessed by the Federal Deposit Insurance Corporation ("FDIC") during the respective periods.

Data processing costs showed a increase of $28,000 or 41.1% for the three months ended March 31, 1992, when compared to the same period in 1991. The increase in 1992 was primarily due to the increase in operating costs associated with the acquisition of $37.0 million of deposits from the RTC.

Advertising expenses decreased slightly by $1,000 or 3.4% for the three months ended March 31, 1992 when compared to the same period in 1991. The decline was due to a reduction in radio and newspaper advertising.

The Company experienced gains on real estate owned of $8,000 and $36,000 for the three months ended March 31, 1992 and 1991, respectively. The gains experienced during the respective periods reflect recoveries on real estate owned relating primarily to the Company's investment in mortgage pass-through certificates ("EPIC Certificates"). Net receipts on the EPIC Certificates exceeded the net realizable value on the respective individual properties collateralizing such EPIC Certificates which resulted in the gains. There are no assurances, however, that the rate and amount of payments and receipts contemplated by the Company's evaluation of such net realizable value will be achieved on the remaining properties.

Miscellaneous other expenses, which consist primarily of professional fees, forms, supplies, bank charges, postage, insurance expenses, automated teller machine ("ATM") expenses, amortization of intangible assets, and provisions for losses on fixed assets increased by $230,000 or 78.7% for the three months ended March 31, 1992, when compared to the same period in 1991. The increase in 1992 was primarily due to: (1) a provision for loss of $78,000 as a result of a branch office building being adjusted to its fair value (the branch office was closed in January 1992); (2) a $62,000 increase in expenses with respect to real estate owned which related to the carrying costs associated with the Company's two largest real estate owned properties; and (3) professional legal fee increases of $43,000 which were associated with litigation matters.

Income Taxes. The Company incurred a provision for income taxes of $371,000 and $305,000 which reflected an effective tax rate of 41.1% and $41.8% for the three months ended March 31, 1992 and 1991, respectively. The effective tax rates have increased in recent years, as a result of the Company's increases in general reserve provisions which are excluded as a deductible item for federal income tax purposes. The overall increase in income taxes was primarily due to an increase in the Company's income before income taxes.

Liquidity and Capital Resources

The assets of the PennFirst totaled $292.3 million at March 31, 1992 compared to $282.5 million at December 31, 1991. The $9.8 million or 3.5% increase in total assets was due primarily to purchases of mortgage-backed securities, which were primarily funded by an increase in the Company's liabilities of $9.4 million. As discussed above, the Company's liabilities increased by $9.4 million or 3.8% to $256.0 million as of March 31, 1992 from $246.6 million as of December 31, 1991. The primary reason for the growth in the Company's liabilities was due to the $26.5 million increase in the Company's borrowed funds as a result of the purchase of $37.2 million of fixed-rate mortgage-backed securities during the three months ended March 31, 1992 which were funded at a positive

interest rate spread through short-term advances from the FHLB of Pittsburgh. Total stockholders' equity as of March 31, 1992 increased to $36.2 million principally as a result of the Company's net income of $532,000 for the three months ended March 31, 1992. Also, dividends totaling $118,784 were declared during the three months ended March 31, 1992.

As of March 31, 1992, under federal regulations, Ellwood Federal (the wholly owned subsidiary of PennFirst) was required to maintain: (1) tangible capital at least equal to 1.5% of adjusted total assets or $4.2 million; (2) core capital at least equal to 3% of adjusted total assets or $8.4 million; and (3) total capital equal to 7.2% of risk-weighted assets or $7.0 million. The required risk-based capital ratio increases to 8% of risk-weighted assets on December 31, 1992. In measuring an institution's compliance with all three capital standards, savings associations or banks must deduct from their capital, with several exceptions, their investments in, and advances to, subsidiaries engaged (as principal) in activities not permissible for national banks. There is a five year phase-in of this provision for investments held as of April 12, 1989 (i.e., generally, no deduction is required prior to July 1, 1990, phasing into a 100% deduction on July 1, 1994). At March 31, 1992, the Savings Bank had no significant investments in, or advances to, subsidiaries engaged in nonpermissible activities. Also, all equity investments in equity securities (except for subsidiaries and service corporations) and real property (except for real property used as offices for the conduct of business and certain real estate owned) must be deducted from total capital for purposes of the risk-based capital standa d over a five year phase-in period commencing July 1, 1990. At March 31, 1992, Ellwood Federal had no significant investment in such assets. Furthermore, supervisory goodwill and most other intangible assets must also be deducted from the calculation of core capital with the supervisory goodwill deduction being phased-in over a period of five years. Ellwood Federal had no supervisory goodwill as of March 31, 1992 and, accordingly, none was included in its capital calculation. However, the Savings Bank had approximately $144,000 in intangible assets which were deducted from its capital calculation as of March 31, 1992. As of March 31, 1992, Ellwood Federal maintained core capital and tangible capital equal to $25.4 million or 9.0% of adjusted total assets and total capital equal to $26.3 million or 27.0% of total risk-weighted assets. As of March 31, 1992, Ellwood Federal's core capital and tangible capital exceeded the required capital amounts by $16.9 million and $21.1 million, respectively, while the Savings Bank's risk-based capital exceeded the required risk-based capital amount by $19.3 million.

In addition, in April 1991, the Office of Thrift Supervision ("OTS") proposed to modify the core capital requirement in the same manner as has recently been done by the Comptroller of the Currency for national banks. Under the OTS proposal, only savings associations rated a composite 1 under the OTS MACRO rating system

will be permitted to operate at or near the regulatory minimum leverage ratio of 3%. For all other savings associations, the minimum core capital leverage ratio will be 3% plus at least an additional 100 to 200 basis points. Furthermore, the OTS has also recently issued a proposed rule to add an interest rate risk component to its risk-based capital requirement. However, in August 1991, the OTS announced that it was delaying incorporating interest rate risk into the risk-based capital regulation until late 1992 in order to evaluate comments received on the proposal and to field test the proposal. Due to Ellwood Federal's strong capitalization, management does not believe that the OTS' adoption of these requirements as proposed would materially adversely affect its operations.

Ellwood Federal is required under applicable federal regulations to maintain specified levels of "liquid" investments including United States government and federal agency securities and other investments. Regulations currently in effect require the Savings Bank to maintain liquid assets of not less than 5% of its net withdrawable accounts plus short-term borrowings ("liquidity base") of which short-term liquid assets must consist of not less than 1%. These levels are changed from time to time by the OTS to reflect economic conditions. Ellwood Federal's liquidity has recently been influenced by general economic conditions, financial market conditions and fluctuations in the interest rates and products offered by competing entities. Although the Savings Bank has consistently maintained liquidity well in excess of OTS requirements, the restructuring of the Company's asset portfolio has generally reduced the Savings Bank's overall liquidity. At March 31, 1992, the level of the Savings Bank's liquid assets as a percentage of the liquidity base was 5.9% and was in compliance with applicable regulations.

PennFirst's primary source of funds generally have been deposits obtained through the Savings Bank's offices and, to a lesser extent, amortization and prepayments of outstanding loans, maturing investment securities and borrowings from the FHLB of Pittsburgh. During the three months ended March 31, 1992, the Savings Bank used its sources of funds primarily to purchase mortgage-backed securities, and to a lesser extent, the funding of loan commitments. At March 31, 1992, the Savings Bank had outstanding loan commitments totaling $4.6 million and $1.7 million of undisbursed loans in process.

At March 31, 1992, savings certificates amounted to $127.8 million or 59.6% of the Savings Bank's total deposits, including $97.3 million which were scheduled to mature by March 31, 1993. At the same date, the total amount of FHLB advances which were scheduled to mature by March 31, 1993 was $21.1 million. Management of the Savings Bank believes that it has adequate resources to fund all of these commitments, that all of these commitments will be funded by March 31, 1993 and that, based upon past experience and current pricing policies, it can adjust the rates of savings certificates to retain a substantial portion of its maturing certificates.

PennFirst's nonperforming assets totaled $4.0 million at March 31, 1992 or 1.4% of total assets. Nonperforming assets consist of nonaccrual loans and real estate owned. A loan is placed on a nonaccrual basis when such loan becomes ninety days or more delinquent. Nonperforming assets at March 31, 1992 consisted primarily of $461,000 in single-family loans, $1.4 million in multi-family residential and commercial real estate loans, $149,000 in consumer loans, and $2.0 million in real estate owned, net of reserves. Nonperforming assets totaled $2.9 million at December 31, 1991 or 1.0% of total assets and consisted primarily of $472,000 in single-family loans, $270,000 in multi-family residential and commercial real estate loans, $121,000 in consumer loans, and $2.1 million in real estate owned, net of reserves. Approximately $6,000 of additional gross interest income would have been recorded during the three months ended March 31, 1992, if the Company's nonaccrual loans had been current in accordance with their original terms and outstanding throughout the three months ended March 31, 1992.

Impact of Inflation and Changing Prices

The Consolidated Financial Statements of the Company and related notes presented herein have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most industrial companies, substantially all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services, since such prices are affected by inflation to a larger extent than interest rates. In the current interest rate environment, liquidity and the maturity structure of PennFirst's assets and liabilities are critical to the maintenance of acceptable performance levels.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

The Company is involved only in routine legal proceedings occurring in the ordinary course of business which in the aggregate are believed by management to be immaterial to the financial condition of the Company.

ITEM 2. Changes in Securities

Not applicable

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Submission of Matters to a Vote of Security Holders

The Savings Bank announced at its Annual Meeting of Stockholders, held on April 29, 1992, that the following proposals were approved:

Election of Directors. (Proposal One)

Directors elected to the Board: George William Blank, Jr. and Lloyd L. Kildoo each for a term of three years, expiring in 1995. There were 981,837 and 974,935 affirmative votes cast for the election of Mr. Blank and Mr. Kildoo, respectively. The number of negative votes cast were 23,409 and 30,311 for Mr. Blank and Mr. Kildoo, respectively. Other directors of the Company consist of Charlotte A. Zuschlag (term expiring in 1994), Marvin A. Luxenberg (term expiring in 1994), William B. Salsgiver (term expiring in 1994), Stanley B. Kraus (term expiring in 1993) and Herbert S. Skuba (term expiring in 1993).

PennFirst Bancorp, Inc. 1992 Stock Incentive Plan. (Proposal Two)

A proposal to adopt the PennFirst Bancorp, Inc. 1992 Stock Incentive Plan ("Stock Incentive Plan"). There were 902,867 affirmative votes cast for the proposal to adopt the Stock Incentive Plan. The number of negative votes cast were 55,007. The number of votes abstaining were 47,372.

Ratification of Selection of Independent Public Accounts. (Proposal Three)

The ratification of the appointment of KPMG Peat Marwick as PennFirst's independent public accountants for the year ending December 31, 1992. There were 982,897 affirmative votes cast for this proposal and negative votes cast totaled 2,750. The number of votes abstaining were 19,599.

ITEM 5. Other Information

None

ITEM 6. Exhibits and Reports on Form 8-K

By letter dated March 18, 1992, the Company filed with the OTS a Current Report on Form 8-K ("FORM 8-K"). The Form 8-K reported under Item 5., the declaration of a $.09 dividend per common share during the quarter.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PENNFIRST BANCORP, INC.

May 13, 1992
Date

BY: Charlotte A. Zuschlag
Charlotte A. Zuschlag
President and Chief Executive Officer

May 13, 1992
Date

BY: _____
Eugene J. Baur, Jr.
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)